

**ALBIA MUNICIPAL WATERWORKS
ALBIA, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2005

**Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, Iowa 50265**

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ALBIA MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Russell	Chairman	April 2, 2009
John Scieszinski	Secretary	April 2, 2007
Jack Scieszinski	Trustee	April 2, 2011
Patty Stuchel	Office Manager	Indefinite
Vicki Kerr	Clerk	Indefinite

Albia Municipal Waterworks

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Albia Municipal Waterworks

We have audited the accompanying financial statements of the Albia Municipal Waterworks, Albia, Iowa, as of and for the year ended June 30, 2005. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Albia Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Albia attributable to the transactions of the Waterworks.

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Albia Municipal Waterworks as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2005 on our consideration of the Albia Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 18 through 19 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

July 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Albia Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

2005 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks decreased 1%, or approximately \$4,000, from fiscal 2004 to fiscal 2005.

Disbursements decreased 1%, or approximately \$15,000, from fiscal 2004 to fiscal 2005.

The Waterworks total cash basis net assets increased 1%, or approximately \$3,000, from June 30, 2004 to June 30, 2005.

The Waterworks refinanced 2 bond issues during the year resulting in a savings of several thousand dollars over the term of the bonds.

USING THIS ANNUAL REPORT

The Albia Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Albia Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Albia Municipal Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Albia Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Albia Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Funds. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2005.

FINANCIAL ANALYSIS OF THE ALBIA MUNICIPAL WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Albia Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Albia Municipal Waterworks' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, taps and miscellaneous fees. The City of Albia pays the Albia Municipal Waterworks contract fees to include sewer and landfill charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2005 and June 30, 2004 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2005	2004
Receipts:		
Use of money and property	\$ 4,252	\$ 4,080
Charges for service	683,854	721,695
Sewer and landfill fees collected for City	335,741	345,554
Miscellaneous	68,818	24,876
Total receipts	1,092,665	1,096,205
Disbursements		
Distribution expenses	85,215	78,730
Distribution outlay	62,550	91,284
Administration and other expenses	450,321	437,107
Sewer and landfill fees remitted to City	338,692	344,364
Debt service:		
Principal paid	138,000	128,917
Interest and trustee fees paid	14,516	24,313
Total disbursements	1,089,294	1,104,715
Net change in cash basis net assets	3,371	(8,510)
Cash basis net assets beginning of year	283,912	292,422
Cash basis net assets end of year	\$ 287,283	\$ 283,912

The smaller portions of the Waterworks' net assets (34%) are unrestricted net assets available for use in routine operations of the distribution and administrative areas of the Waterworks and for capital improvements to the distribution areas. The remaining net assets (66%) are restricted for the repayment of the revenue bonds issued and the customer water deposits.

DEBT ADMINISTRATION

At June 30, 2005, the Waterworks had \$415,000 in revenue bonds and debt outstanding, compared to \$553,000 last year. All the Waterworks bonds are revenue bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Albia Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2006 budget, including water main replacements, upkeep of current mains and fees that will be charged. The Waterworks is undertaking an extensive capital improvement program, which is expected to cost approximately \$1.4 million. The Waterworks has obtained a grant and a loan from the State of Iowa to fund these capital improvements.

CONTACTING THE ALBIA MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bob Russell, Albia Municipal Waterworks Chairman, 120 South A Street, Albia, IA 52531.

Financial Statement

ALBIA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BASIS NET ASSETS

Year ended June 30, 2005

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	\$ 683,854
Miscellaneous	<u>68,818</u>
Total operating receipts	<u>752,672</u>
Operating disbursements:	
Business type activities	<u>598,086</u>
Total operating disbursements	<u>598,086</u>
Excess of operating receipts over operating disbursements	<u>154,586</u>
Non-operating receipts (disbursements):	
Interest on investments	4,252
Sewer and Landfill fees collected for City	335,741
Sewer and Landfill fees remitted to City	(338,692)
Debt service	<u>(152,516)</u>
Total non-operating receipts (disbursements)	<u>(151,215)</u>
Change in cash basis net assets	3,371
Cash basis net assets beginning of year	<u>283,912</u>
Cash basis net assets end of year	<u><u>\$ 287,283</u></u>
Cash Basis Net Assets	
Restricted for:	
Bond principal and interest payments	\$ 116,398
Customer water deposits	<u>72,697</u>
Total restricted net assets	189,095
Unrestricted	<u>98,188</u>
Total cash basis net assets	<u><u>\$ 287,283</u></u>

See notes to financial statement.

ALBIA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Albia Municipal Waterworks is a component unit of the City of Albia, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Albia Municipal Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Cash Equivalents – The Waterworks considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets and Net Assets – Funds set aside for bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United State government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Waterworks.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds	
	Principal	Interest
2006	\$ 24,000	\$ 12,121
2007	91,000	10,366
2008	170,000	6,515
2009	45,000	3,379
2010	55,000	1,800
2011	30,000	488
	<u>\$ 415,000</u>	<u>\$ 34,669</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to a "Revenue Bond Sinking Fund" for the purposes of making the bond principal and interest payments when due.

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$8,701, \$8,366 and \$8,243 respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation leave termination payments payable to employees at June 30, 2005 is \$6,429. The liability has been computed based on rates of pay as of June 30, 2005.

Note 6. Office Lease Agreement

The Waterworks and the City of Albia have entered a lease for office space to be occupied by the Waterworks in the Albia City Hall. The lease has a term of thirty years with current rental payments of \$150 per month. The thirty year period expires on December 31, 2011.

The lease provides for the annual negotiation of the amount of the lease payments on the anniversary date of the lease. Rental expense under this agreement during the year ended June 30, 2005 was \$1,800.

Note 7. Risk Management

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any

Note 7. Risk Management (continued)

portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' annual contributions to the Pool for the year ended June 30, 2005 were \$8,583.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Commitment

The Waterworks has signed a contract to purchase a minimum of 3,000,000 gallons of water a month from the Rathbun Regional Water Association, Inc. This contract is effective through year 2039. Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, Inc. The Waterworks does not have the capability to produce its own water for resale.

Required Supplementary Information

ALBIA MUNICIPAL WATERWORKS

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS)**

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2005

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 4,252	\$ 4,550	\$ 4,550	\$ (298)
Intergovernmental	-	1,686,000	-	-
Charges for service	1,019,595	706,300	706,300	313,295
Miscellaneous	68,818	437,200	437,200	(368,382)
Total receipts	1,092,665	2,834,050	1,148,050	(55,385)
Disbursements:				
Business type activities	1,089,294	2,737,640	1,051,640	37,654
Change in cash basis net assets	3,371	96,410	96,410	(93,039)
Cash basis net assets beginning of year	283,912	-	-	283,912
Cash basis net assets end of year	\$ 287,283	\$ 96,410	\$ 96,410	\$ 190,873

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

The Albia Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted.

Other Supplementary Information

ALBIA MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUNDS

Year ended June 30, 2005

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING RECEIPTS:					
Charge for service -					
Sale of water to meter customers	\$ 621,940	\$ -	\$ -	\$ -	\$ 621,940
Sales of water - tank service	352	-	-	-	352
Collection fee from City	35,410	-	-	-	35,410
Sale of labor	9,481	-	-	-	9,481
Sale of supplies	16,671	-	-	-	16,671
	<u>683,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>683,854</u>
Miscellaneous -					
Sales tax collected	47,484	-	-	-	47,484
Refunds and reimbursements	7,884	-	-	-	7,884
Customer deposits	-	13,450	-	-	13,450
	<u>55,368</u>	<u>13,450</u>	<u>-</u>	<u>-</u>	<u>68,818</u>
Total operating receipts	<u>739,222</u>	<u>13,450</u>	<u>-</u>	<u>-</u>	<u>752,672</u>
OPERATING DISBURSEMENTS:					
Business type activities -					
Water -					
Distribution expenses -					
Labor	68,345	-	-	-	68,345
Tools and equipment repairs	660	-	-	-	660
Truck expense	462	-	-	-	462
Gasoline and oil	1,475	-	-	-	1,475
Supplies	4,266	-	-	-	4,266
Water tests	1,417	-	-	-	1,417
Electric	1,106	-	-	-	1,106
Shop fuel	1,528	-	-	-	1,528
Shop telephone	639	-	-	-	639
Purchased services	3,510	-	-	-	3,510
Clothes	1,807	-	-	-	1,807
	<u>85,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,215</u>
Distribution outlay -					
Supplies	951	-	-	33,936	34,887
Hydrant repairs or supplies	5,424	-	-	-	5,424
Equipment	2,732	-	-	-	2,732
Purchased services	432	-	-	-	432
Capital outlay	-	-	-	19,075	19,075
	<u>9,539</u>	<u>-</u>	<u>-</u>	<u>53,011</u>	<u>62,550</u>

ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUNDS

Year ended June 30, 2005

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING DISBURSEMENTS (continued) -					
Business type activities (continued) -					
Water (continued) -					
Administration and other expenses -					
Salaries	\$ 62,415	\$ -	\$ -	\$ -	\$ 62,415
Customer service wage	20,567	-	-	-	20,567
Postage	6,144	-	-	-	6,144
Office supplies	4,656	-	-	-	4,656
Office rent	1,800	-	-	-	1,800
Maintenance contracts	4,531	-	-	-	4,531
Telephone	3,132	-	-	-	3,132
Publishing	1,421	-	-	-	1,421
Audit and filing fee	1,375	-	-	-	1,375
Customer deposits	-	11,950	-	-	11,950
Dues	1,507	-	-	-	1,507
Insurance	13,740	-	-	-	13,740
Equipment	130	-	-	-	130
Legal	1,314	-	-	-	1,314
Employee insurance	52,190	-	-	-	52,190
Conventions, meetings, schools	439	-	-	-	439
Sales tax	47,526	-	-	-	47,526
Payroll taxes	21,361	-	-	-	21,361
Employee medical reimbursements	686	-	-	-	686
Purchased water	193,437	-	-	-	193,437
	438,371	11,950	-	-	450,321
Total operating disbursements	533,125	11,950	-	53,011	598,086
Excess (deficiency) of operating receipts over (under) operating disbursements	206,097	1,500	-	(53,011)	154,586

ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

**COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUNDS**

Year ended June 30, 2005

	General	Customer Deposit	Debt Service	Improvement	Total
NON-OPERATING RECEIPTS (DISBURSEMENTS):					
Interest on investments	\$ 4,252	\$ -	\$ -	\$ -	\$ 4,252
Miscellaneous -					
Sewer rental collections	320,010	-	-	-	320,010
Landfill charge collections	15,731	-	-	-	15,731
Sewer rental disbursed to City	(322,919)	-	-	-	(322,919)
Landfill charge disbursed to City	(15,773)	-	-	-	(15,773)
Debt service -					
Principal redemption	-	-	(138,000)	-	(138,000)
Interest paid	-	-	(14,234)	-	(14,234)
Trustee fees	-	-	(282)	-	(282)
Total non-operating receipts (disbursements)	1,301	-	(152,516)	-	(151,215)
Excess (deficiency) of receipts over (under) disbursements	207,398	1,500	(152,516)	(53,011)	3,371
Operating transfers in (out)	(187,640)	-	145,640	42,000	-
Net change in cash basis net assets	19,758	1,500	(6,876)	(11,011)	3,371
Cash basis net assets, beginning of year	61,662	71,197	123,274	27,779	283,912
Cash basis net assets, end of year	\$ 81,420	\$ 72,697	\$ 116,398	\$ 16,768	\$ 287,283

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
Water Revenue Bonds	07-01-98	4.00%-4.60%	\$ 210,000
Water Revenue Bonds	11-01-01	3.50%	185,000
Water Revenue Bonds	02-13-03	1.90%-2.95%	100,000
Water Revenue Bonds	10-15-03	2.15%-2.55%	265,000
Water Revenue Bonds	09-01-04	2.85%-3.35%	120,000
Water Revenue Bonds	04-21-05	2.75%-3.25%	215,000

<u>Date of Issue</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year *</u>	<u>Redeemed During Year *</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
07-01-98	\$ 135,000	\$ -	\$ 135,000	\$ -	\$ 3,059	\$ -
11-01-01	65,000	-	65,000	-	1,137	-
02-13-03	88,000	-	8,000	80,000	2,363	-
10-15-03	265,000	-	265,000	-	5,893	-
09-01-04	-	120,000	-	120,000	1,782	-
04-21-05	-	215,000	-	215,000	-	-
Total	<u>\$ 553,000</u>	<u>\$ 335,000</u>	<u>\$ 473,000</u>	<u>\$ 415,000</u>	<u>\$ 14,234</u>	<u>\$ -</u>

* The \$335,000 issued during the year refunded a similar amount of old bonds.
The new lender directly paid off the bondholders in relation to the 1998 and 2003 issues.

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 3

BOND MATURITIES

June 30, 2005

Year ending June 30,	Water Revenue Bonds			
	Issued February 13, 2003		Issued September 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2006	2.25%	\$ 9,000	2.85%	\$ 15,000
2007	2.65%	6,000	2.95%	20,000
2008	2.95%	65,000	3.15%	40,000
2009		-	3.35%	45,000
		<u>\$ 80,000</u>		<u>\$ 120,000</u>

Year ending June 30,	Water Revenue Bonds		
	Issued April 21, 2005		
	Interest Rates	Amount	Total
2006		\$ -	\$ 24,000
2007	2.75%	65,000	91,000
2008	2.75%	65,000	170,000
2009		-	45,000
2010	3.00%	55,000	55,000
2011	3.25%	30,000	30,000
		<u>\$ 215,000</u>	<u>\$ 415,000</u>

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 4

WATER STATISTICS

June 30, 2005

	<u>2005</u>
Meters in service	1,689
Gallons placed in service	121,987,000
Amount metered for sale	89,559,800
Flushings, hydrants, fires, leaks and city use (estimated)	32,427,200

See accompanying independent auditor's report.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Albia Municipal Waterworks

We have audited the financial statement of the Albia Municipal Waterworks, Albia, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 6, 2005. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Albia Municipal Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Albia Municipal Waterworks' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we believe it is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Albia Municipal Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks'. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Albia Municipal Waterworks and other parties to whom the Albia Municipal Waterworks may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Albia Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

July 6, 2005

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

I-A-05 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. At times, one person has control over one or more of the following areas.

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Receipts – billings, collecting, depositing, journalizing and posting.
- (3) Disbursements – purchasing, check writing, recording and reconciling.
- (4) Payroll – preparing and distributing.
- (5) Financial reporting – preparing, posting and reconciling.
- (6) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Waterworks should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and utility officials.

Response – We will continue to evaluate the internal controls and segregation of duties with limited staff.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the Waterworks. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2005.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

- II-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the business type activities functions. Chapter 384.30 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-D-05 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

- II-E-05 Business Transactions - No business transactions between the Waterworks and Waterworks officials or employees were noted.

- II-F-05 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-G-05 Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.

- II-H-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

- II-I-05 Revenue Bonds - The Waterworks has complied with the provisions of the revenue bond indentures.

- II-J-05 Collection Procedures – The Waterworks periodically writes off bad debts. The Waterworks does not turn over the delinquent accounts to a collection agency. In addition, the Waterworks does not consistently turn over the delinquent accounts to the County Treasurer for collection.

Recommendation – Prior to write-off of the bad debt, the Waterworks consider turning over delinquent accounts to a collection agency or the County Treasurer for collection.

Response – We do not feel that turning the delinquent accounts over to a collection agency is worth it. In addition, we have decided to turn over delinquent accounts to the County Treasurer if the owner of the property is delinquent. However, we do not turn over the delinquent accounts to the County Treasurer in a landlord-tenant arrangement, since the owner of the property would be delinquent for the tenants delinquency.

Conclusion – Response accepted.

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**To the Board of Trustees
Albia Municipal Waterworks
Albia, Iowa**

We have compiled the accompanying balance sheet of the Albia Municipal Waterworks, component unit of the City of Albia, Albia, Iowa, as of June 30, 2005, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying balance sheet and, accordingly, do not express an opinion or any other form of assurance on it.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included with the balance sheet, they might influence the user's conclusions about the Waterworks' financial position. Accordingly, this balance sheet is not designed for those who are not informed about such matters.

**Peak & Gerdes, LLP
Certified Public Accountants**

July 6, 2005

ALBIA MUNICIPAL WATERWORKS

BALANCE SHEET

June 30, 2005

(Compiled)

ASSETS

CURRENT ASSETS

Cash	\$ 98,188	
Unbilled water revenue	99,987	
Prepaid insurance	<u>10,797</u>	
Total current assets		\$ 208,972

RESTRICTED ASSETS

Cash - Customer Deposit Account	72,697	
Cash - Revenue Bond Sinking Account	<u>116,398</u>	
Total restricted assets		<u>189,095</u>
Total current and restricted assets		<u>398,067</u>

Property and Equipment, at cost	1,478,257	
Less accumulated depreciation	<u>580,342</u>	
		897,915

Cost of Bond Issue	3,730	
Less accumulated amortization	<u>2,337</u>	
		<u>1,393</u>
		<u>\$ 1,297,375</u>

LIABILITIES AND MUNICIPAL EQUITY

CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS

Accounts payable	\$ 22,382	
Due to City - sewer rental and landfill charges	25,856	
Accrued sales taxes	3,975	
Accrued payroll	10,962	
Accrued vacation pay	<u>6,429</u>	
		\$ 69,604

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Current portion of long-term debt	24,000	
Customer deposits	<u>72,697</u>	
		<u>96,697</u>
Total current liabilities		166,301

LONG-TERM DEBT

Water revenue bonds payable, net of current portion	<u>391,000</u>	
		<u>391,000</u>
Total liabilities		557,301

MUNICIPAL EQUITY

	<u>740,074</u>
	<u>\$ 1,297,375</u>

See Accountant's Compilation Report.